Athletics Financial Sustainability Plan:  
Progress Report of the  
Intercollegiate Financial Sustainability Work Group

BACKGROUND

Intercollegiate athletics adds significant value to the overall student experience and culture of Oregon State University and meaningfully contributes to the university’s engagement with alumni, donors and the broader community. National media attention showcasing the performance and contributions of Oregon State student athletes both on the field of competition and in the community also positively advances public awareness of the university and its mission. The program, however, has operated at a deficit for the last three fiscal years, and projections show that significant changes in the operating model are required to run a competitive and financially sustainable Pac-12 athletics program.

The interim vice president for finance and administration and the interim provost and executive vice president convened a working group to review the current operations of Athletics and to make recommendations on strategies to develop a sustainable operating model. Progress from those efforts is reported here.

PARTICIPATION AND PROCESS

The work group includes:

Ron Adams  Interim Provost and Executive Vice President  
Mike Green  Interim Vice President for Finance and Administration, Chair  
Todd Stansbury  Vice President and Director of Intercollegiate Athletics  
Mike Goodwin  Chief Executive Officer, OSU Foundation  
Kate Halischak  Director, Student-Athlete Academic Services, and President, Faculty Senate  
(Since first two meetings Janine Trempy, Professor in Microbiology, represented the Faculty Senate)  
Susie Brubaker-Cole  Vice Provost for Student Affairs  
Rachel Grisham  President, Associated Students of Oregon State University (ASOSU)  
Jim Patterson  Senior Associate Athletics Director for Development, OSU Foundation  
Joey Spatafora  Professor, Botany and Plant Pathology, and Faculty Athletics Representative  

Staff supporting the work group include:

Sherm Bloomer  Director, Budget and Fiscal Planning  
Jacque Bruns  Associate Athletics Director for Business Operations  
Nicole Real  Director of Capital Budgeting and Self-Support Budgets  
Kay White  Special Assistant to the Division of Finance and Administration

The group met five times in July through October to consider and address a number of topics, including:

- Recent history and trends in Athletics operations.
- The net balance sheet between the Education & General (E&G) and Athletics budgets.
- Operating forecasts for the next several years.
- Strategies to develop a balanced operating budget and defray accumulated negative working capital.

This work resulted in agreement of a draft strategy that defines future budget plans; a variety of defined actions and commitments; and designation of assigned responsibilities intended to support an on-going, sustainable operational and financial plan within OSU Athletics. A final report and implementation of this strategy and action plan are pending comment and feedback from the Committee at this meeting.

**KEY OBSERVATIONS**

Some of the principal issues reviewed by the work group included:

*Why is athletics an important part of OSU?*

- Membership in the Pac-12 enhances OSU’s academic reputation.
- Nationally, enrollment management experts agree that athletics programs successfully contribute to the overall recruiting of undergraduate students.
- Athletics provides the university frequent national visibility that it otherwise would be hard pressed to afford.
- Athletic programs provide opportunities for student-athletes and other students (e.g., band, trainers, student workers) to engage in experiential learning and activities that help these students develop as individuals outside the classroom.
- Athletic programs provide many students a point of common participation and a sense of community that serves as positive focus of university engagement outside the classroom.
- Alumni, donors and friends of the university gather for athletic events and have opportunities to learn more about OSU’s research and academic programs and consider philanthropic support for both athletics, student scholarships and other OSU programs.
- Annual spending of nearly $40M by more than 500,000 visitors to Oregon State’s Corvallis campus has a significant local economic impact. Most of these visitors are associated with athletic events.

*What were the principal reasons for the operating deficits beginning in FY2014?*

- The coincidence of later kick-off times for many football games; staff transitions in several major sports programs; and fewer winning football seasons led to declines in overall ticket sales.
- Annual unrestricted fundraising has not grown to levels expected given inflation, the mix of athletic programs offered and stadium capacity. Much of the current unrestricted giving is tied to season football ticket sales. Unrestricted giving has declined as football ticket sales have declined. As a result, both the amount of unrestricted donations and the number of donors to OSU Athletics have declined.
- Institutional support was reduced to $4.0M annually after there were large E&G contributions in 2010-11 ($9.1M) and 2011-12 ($10.5M) to address operating challenges in athletics.
Expenses have grown faster than inflation, especially for coaches’ salaries, but have grown in the major categories and most likely reflect market and competitive pressures. The size of our stadium, our geographic location, and the success of our programs limit the revenue that can be generated from ticket sales and related donations.

What is the net budget impact of Athletics on the Corvallis Education & General Budget?

- E&G support to Athletics is largely for sports other than football and men’s basketball.
- Athletics provides a net positive operating contribution to E&G funds if all sources of support (including non-scholarship student-athletes) and all payments are taken into account.
- Direct net revenues from football were over $15M in FY2016. These football revenues helped to support general Athletics operations and the costs of other sports, including golf, track, rowing, gymnastics, volleyball, soccer, and others.

How does OSU’s Athletics program compare to peers in the Pac-12 and nationwide?

- OSU’s level of spending is in the lower one-third of the Pac-12, and the changes in spending are not unusual for our peer universities. OSU is unusual in that total revenues declined somewhat from 2013 to 2015.
- OSU’s proportion of expenditures for coaches and staff is at the low end of peer universities, but spending in “other expenses” is higher than the average for peers (this category includes a variety of things like team travel, medical expenses, depreciation, training table, termination pay, and others).
- Ticket and gift revenues as a portion of total revenues are low when OSU Athletics is compared to peers. The most significant difference is the degree to which gifts as a proportion of Athletics operating revenues have declined in recent years.

What does the future look like without any changes?

- Conservative projections show recurring annual operating deficits before depreciation in the range of $10.0M if no changes occur in revenues or expenses.
- Changes in fundraising, broadcast television and other media broadcasting contracts, debt restructuring, expenditures, and institutional support could address much of this deficit.

SUMMARY OF STEPS UNDER DISCUSSION

The work group has identified a number of actions that could be part of a strategy for a sustainable operating budget. These strategies have not been finalized, as the specific dollar amounts, consequences, and timing of each action are presently being reviewed by the work group. Any strategies recommended for implementation would be preceded by discussions with the campus community, Faculty Senate, ASOSU, and the Board. Draft strategies include:

- Increase institutional support from the current $4.0M annually.
- Implement operating efficiencies in Athletics to reduce projected expenditures by $1.0M in FY2020.
- Renegotiate local broadcast media rights with an increase in annual operating revenues.
• Redirect savings as debt service payments decrease beginning in FY2018 to operations.
• Increase annual unrestricted giving through the existing 'Our Beaver Nation' fundraising program and possibly implement other new programs focused on scholarships for student athletes.
• Assume that there will be significant additional costs annually by FY2020 to meet revised NCAA rules for support of student athletes. Such increases could total $1.2M annually).
• Increase annual ticket revenues through revised pricing and sales strategies.
• Consider updating or reinstating charges to other campus units that use Athletics facilities.
• Identify and implement innovative business partnerships that would result in incremental additional revenue to Athletics such as strategic naming rights and licensing agreements.

The work group recommends that no change should be made in the current agreements within the student incidental fees that support Athletics and provide free admission for students to all athletic events.

The work group believes that no single change or strategy is sufficient by itself to create a sustainable operating budget. However, the work group believes that, in combination, these strategies can reasonably yield a positive operating balance in FY2019 and FY2020, while also taking into account reasonable assumptions about inflation in current costs and other revenues.

The work group is also discussing strategies to defray the accrued negative net working capital balance. The budget projections are conservative, and the group is considering how to direct any additional operating surplus to both E&G operations and Athletics operations; to defray the working capital balance over time; and to increase the competitive success of OSU's teams.

While the projections for operating balances are conservative, the work group has identified a strategy to address shortfalls in any of the revenue projections or significantly increased expenses that are not within the control of the Athletics program. Current facility debt in Athletics could be restructured to a new 30-year loan, saving an additional $2.0M in debt service annually beginning in FY2020 over what the current debt schedules provide. This approach would cost an additional $28.0M in interest costs over the 30-year term, but would provide significant short-term operating savings.

Once a final strategy is identified, the projections and assumptions should be reviewed quarterly and adjusted as necessary to end at an operating deficit of no more than $4.0M in FY2018 and to produce positive operating balances beginning in FY2019.

**NEXT STEPS**

The work group will complete a full report and set of recommendations. Once these are reviewed by President Ray, they will be shared with the Faculty Senate, ASOSU, and the general campus community to solicit comments and suggestions during fall term. These discussions will inform a final report and set of recommendations to be submitted to President Ray no later than December 15, 2016. With President Ray's approval, a final version will be reviewed with the Board. Some recommended actions may be executed earlier, if practical and timely (e.g., renegotiating local broadcast media or other contracts).